

**STATE OF NEVADA**

**STATE DEBT ISSUANCE**

**POLICIES AND  
PROCEDURES**

**A MANUAL FOR STATE DEBT  
FINANCINGS  
MANAGED BY THE STATE  
TREASURER'S  
OFFICE**

**STATE DEBT ISSUANCE POLICIES AND PROCEDURES  
FOR THE STATE TREASURER'S OFFICE  
STATE OF NEVADA**

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## **Introduction**

The State of Nevada (the “State”) enacts the following policies in a continuing effort to refine the issuance and management of debt. The primary objectives are to establish conditions for the use of debt, to create procedures and policies that minimize the State’s debt service and issuance costs to retain the highest practical credit rating, and to maintain full and complete financial disclosure and reporting. The State Treasury staffers primarily involved in the issuance of State debt in addition to the State Treasurer are the Chief Deputy State Treasurer, Deputy Treasurer of Debt Management and the Deputy of Investments assisted by various other staff members.

## **Purposes of Debt Issuance**

The State requires general obligation bonds to be legislatively authorized and are secured by the ad valorem tax portion dedicated to the payment of general obligation debt. *NRS 226.110 (10)* provides that the State Treasurer is directly responsible for the issuance of any obligation authorized on behalf and in the name of the State, other than certain housing and industrial development debt. The State Treasurer will issue such an obligation as soon as practicable after receiving a request from a State agency for the issuance of the obligation.

The Office of the Treasurer (“State Treasurer” or “Treasurer”) is currently procedurally responsible for the following types of debt: Capital Improvement Bonds, Municipal Bond Bank Bonds; State Revolving Fund Bonds; Cultural Affairs Bonds; Highway Bonds; Natural Resources Bonds; and, other miscellaneous general obligation bonds and securities. (The Colorado River Commission, the University of Nevada System, and the Department of Business and Industry issue various types of bonds under various levels of autonomy.)

*NRS 355.010-355.045* created the State Board of Finance (“Board of Finance”). The Board of Finance consists of the Governor, the State Controller and the State Treasurer as well as two members appointed by the Governor; one of which must be actively engaged in commercial banking within the State. *NRS 349.225* requires that any general obligation bond, with the exception of certain bonds issued by the Colorado River Commission, be reviewed and approved by the Board of Finance. Authorizing legislation for the issuance of State bonds will typically require the Board of Finance to approve the issuance of the bonds.

## **Legal Debt Limitations**

The Treasurer is responsible for identifying the type of debt to be issued and all applicable legal restrictions. The Constitution of the State of Nevada, Article 9, section 3 limits the aggregate principal amount of the State’s outstanding general obligation debt to 2% of the total reported assessed valuation of the State. The limitation does not extend to debt incurred for the protection and preservation of any property or natural resources of the State or for the purpose of obtaining the benefits thereof.

Subject to the Constitutional debt limitation, the Legislature may authorize the issuance of debt for any public purpose. The Treasurer monitors the authorization of debt by the Legislature and whether the issuance of particular securities is made subject to voter approval.

The Treasurer keeps track of the State’s debt and is prepared at all times to provide comprehensive tables and information to the Governor, the Legislature, the investment community and the rating agencies about State debt. This information is published regularly in bond disclosure documents and public filings with municipal securities information repositories.

The Treasurer is also responsible for obtaining opinions of bond counsel to the effect that debt securities sold by the State are properly authorized and binding obligations of the State and, if applicable, that interest on the securities is exempt from federal taxation.

## **State of Nevada Debt Structure**

### **General Obligations and Special Obligations**

NRS 349.216 provides that the State may issue, in one series or more, State securities in anticipation of taxes or pledged revenues. The following types of securities, constituting either general obligations or special obligations of the State, may be issued:

1. Notes;
2. Warrants;
3. Bonds;
4. Temporary bonds; and
5. Interim debentures not exceeding 5 years as provided in NRS 349.318 to 349.328, inclusive.

Pursuant to *NRS 349.224*, the State may issue general obligation bonds payable solely from taxes or payable from taxes and secured by pledged revenues.

In accordance with *NRS 349.225*, the State Treasurer will obtain prior approval of the Board of Finance for the issuance of any general obligation securities, other than certain securities issued by the Colorado River Commission.

Pursuant to *NRS 349.226*, the State may issue special obligation bonds secured by net pledged revenues but not secured by taxes or gross pledged revenues.

In accordance with *NRS 349.078*, no bond will be issued or sold by the State after the expiration of 6 years from the date of the election authorizing such issue, if any law requires an election.

### **Cultural Affairs Bonds**

In accordance with *NRS 233C.225*, the Commission for Cultural Affairs may grant financial assistance not to exceed \$2,000,000 per year and \$20,000,000 in any ten-year period.

Further compliance necessitates that the expenses related to the issuance of the bonds must be paid from the proceeds of the bonds, and must not exceed 2 percent of the face amount of the bonds. The proceeds of bonds issued must not exceed the sum of the financial assistance granted plus the amount of expenses related to the issuance of the bonds.

### **Municipal Bond Bank Bonds**

*NRS 350A.140* designates the State Treasurer as administrator of the Nevada Municipal Bond Bank.

In accordance with *NRS 350A.150*, the amount of State securities, issued to acquire municipal securities, outstanding at any time may not exceed \$1.8 billion.

Further, the State Treasurer will not issue State securities to acquire revenue securities unless:

- (a) The State Treasurer presents to the Board of Finance findings which indicate that the revenues and taxes pledged to the payment of the revenue securities are sufficient to repay the State securities; and
- (b) The Board of Finance approves the findings.
- (c) See "State Revolving Fund Bonds – Exchange for a Revenue Security"

### **State Revolving Fund Bonds**

Department of Conservation and Natural Resources  
Health Division of the Department of Human Resources

State Revolving Fund Bonds are issued on behalf of the Department of Conservation, Division of Environmental Protection for Clean Water Act projects. In accordance with *NRS 445A.155*, before any bonds are issued, the Board of Finance must certify that sufficient revenue will be available in the account created pursuant to *NRS 445A.120* to pay the interest and installments of principal as they become due.

State Revolving Fund bonds are also issued on behalf of the Department of Health, State Health Division, for Safe Drinking Water Act projects. In accordance with *NRS 445A.290*, the State Treasurer may among other things, adopt financial regulations relating to projects receiving financial assistance, enter into agreements and arrangements consistent with *NRS 445A.200 to 445A.295*, inclusive, concerning the authorization, sale and issuance of state securities and the purchase of municipal securities or nongovernmental debt, and require, as appropriate to secure a nongovernmental debt, enhancements of credit or the pledge of any variety of collateral or other types of security, such as corporate or personal guarantees.

#### Exchange for a Revenue Security

Unless waived by the State Treasurer for good cause shown, parameters for exchange of a revenue bond in lieu of a general obligation bond with the express permission and in the sole discretion of the State Treasurer:

- (a) The applicant is under the constraints of the overlapping tax rate;
- (b) Issuance of a general obligation bond has been protested, overturned, otherwise hindered or not available;
- (c) The amount of the loan is less than \$5,000,000;
- (d) The health and welfare of citizenry is at risk; or
- (e) The timing of receipt of funds creates an economic or health burden.

Once the State Treasurer has determined that one or more of the above requirements have been met and approves the exchange, the following applies:

1. The State shall charge an interest rate on the outstanding principal of the revenue bond equal to 62.5%, in the case of a loan from the Department of Conservation and Natural Resources, and 66%, in the case of a loan from the Health Division of the Department of Human Resources, of the Index of Revenue Bonds most recently published in The Bond Buyer before the loan contract is entered into with the State.
2. At the time of adoption of the instrument, ordinance or resolution authorizing the issuance of the revenue bond, the local government shall not be in default in the payment of principal of or interest on any securities payable from the net pledged revenues that will secure the payment of the revenue bond.
3. The revenue bond must constitute a first lien on the net pledged revenues, unless for good cause shown, the State Treasurer agrees to accept another lien position.
4. If the revenue bond is to be issued by a local government that has less than 10,000 customers of its sewer and/or water system, the net revenue (subject to adjustments as hereinafter provided) projected by the local government to be derived in the later of (i) the fiscal year immediately following the fiscal year in which the facilities to be financed with the proceeds of the revenue bond are projected to be completed or (ii) the first fiscal year for which no interest has been capitalized for the payment of any parity securities, including the revenue bond proposed to be issued, will be sufficient to pay at least an amount equal to 1.25 times the principal and interest requirements (to be paid during that fiscal year) of the proposed revenue bond and any other outstanding parity securities of the local government (excluding any reserves therefore), and the governing body must covenant not to issue additional securities on a parity with or superior to the revenue bond without meeting this test.
5. If the revenue bond is to be issued by a local government that has greater than 10,000 customers of its sewer and/or water system, the net revenue (subject to adjustments as hereinafter provided) projected by the local government to be derived in the later of (i) the fiscal year immediately following the fiscal year in which the facilities to be financed with the proceeds of the revenue bond are projected to be completed or (ii) the first fiscal year for which no interest has been capitalized for the payment of any parity securities, including the revenue bond proposed to be issued, will be sufficient to pay at least an amount equal to 1.2 times the principal and interest requirements (to be paid during that fiscal year) of the proposed bond and any other outstanding parity securities

of the local government (excluding any reserves therefore), and the governing body must covenant not to issue additional securities on a parity with or superior to the revenue bond without meeting this test.

6. In determining whether or not a revenue bond may be issued in accordance with one of the foregoing tests in paragraphs 4 and 5 above:
  - (a) Consideration may be given to any probable estimated increase or reduction in operation and maintenance expenses that will result from the expenditure of the funds proposed to be derived from the issuance and sale of the revenue bond;
  - (b) Consideration may be given to rate increases that have been adopted and have taken effect or are scheduled to take effect in the fiscal year immediately following the issuance of the revenue bond; and
  - (c) The respective annual principal (or redemption price) and interest requirements shall be reduced to the extent such requirements are scheduled to be paid with moneys held in trust or in escrow for that purpose by any trust bank, including the known minimum yield from any investment in permitted securities.

A written certificate or written opinion by an authorized representative of the local government, an independent accountant or consulting engineer that one of the foregoing tests in paragraphs 4 or 5 above is met must be delivered to the State on or before the date of delivery of the revenue bond to the State. Where applicable, the local government must confirm that Department of Taxation has reviewed and approved the transaction.

7. The local government must covenant in the instrument, resolution or ordinance authorizing the issuance of the revenue bond to charge against its customers of the sewer and/or water system, such fees, rates and other charges as shall be sufficient to produce gross revenues annually which, together with any other funds available therefore will be in each fiscal year at least equal to the sum of:
  - (a) An amount equal to the annual operation and maintenance expenses for the system for such fiscal year;
  - (b) An amount equal to: (i) in the case of a revenue bond issued by a local government that has less than 10,000 customers of its water and/or sewer system, 1.25 times, and in the case of a revenue bond issued by a local government that has more than 10,000 customers of its water and/or sewer system, 1.2 times, the debt service due in such fiscal year on any then outstanding superior securities, the revenue bond and any outstanding parity securities; and
  - (c) Any amounts payable from the net revenues and pertaining to the system, including, without limitation, debt service and reserve requirements on any subordinate securities and any other securities pertaining to the system, operation and maintenance reserves, capital reserves and prior deficiencies pertaining to any account relating to gross revenues.
8. The instrument, resolution or ordinance authorizing the revenue bond must provide for a reserve fund which may be funded from bond or loan proceeds or other available monies in the minimum reserve amount equal to 10% of the par amount of the revenue bond, average annual debt service on the revenue bond or the maximum annual debt service on the revenue bond, whichever is less, to be deposited with the State Treasurer in the Local Government Investment Pool (the "LGIP"). (Interest on the reserve fund to be accrued and distributed to the benefit of the applicant.)
9. A legal opinion from an attorney (approved by the State Treasurer) licensed within the State or associated with a firm licensed within the State and listed in the most recent edition of the Bond Buyer's Municipal Marketplace – Directory (also known as the "Red Book"), must certify that:

- (a) all necessary steps have been fulfilled on the part of the applicant to legally issue the revenue bond; and
- (b) interest on the revenue bond is excludable (or not excludable, as appropriate) from gross income for federal income tax purposes.

In addition, the attorney offering the opinion must have an errors and omissions policy in a minimum amount equal to the loan or \$10,000,000 whichever is less, and must provide upon request of the State Treasurer proof of such with the opinion.

### **Permanent School Fund Guarantee Bonds**

The Permanent School Fund Guarantee Program (PSFG) allows school districts to enter into guarantee agreements with the State whereby the money in the Permanent School Fund is used to guarantee the debt service payments on certain bonds issued by the school districts. This program is designed to provide easier access to public credit markets and reduce borrowing costs to school districts. Fundamental to this program is the legal authorization of the Permanent School Fund (the "fund") to guarantee school district debt, which includes the mechanics to ensure timely debt service payment, and strong oversight and enforcement provisions. The State Treasurer, who also has responsibility for investment of the fund, administers this program. If a school district is unable to make a debt service payment, the school board or superintendent is required to provide written notification to the State Treasurer at least 60 days before the payment is due. Each district is required to transfer to the paying agent sufficient money due for each debt service payment no later than five business days prior to the scheduled payment date. If the paying agent does not receive sufficient funds the paying agent is required to notify the State Treasurer. If a district fails to make a timely payment, the State Treasurer is required to withdraw from the fund a sufficient amount of money to make the debt service payment when due. This withdrawal from the fund and payment of debt service on the bonds is considered a loan to the district and the district must repay this loan from either district money available to pay debt service on the bonds that are guaranteed or if the district is unable to do so, the loan will be repaid from withholdings of state aid due the district. The required repayment provides an additional safeguard to protect and replenish the funds assets in the event of a draw under the program. The State Treasurer will abide by NRS 387.513 to 387.528, inclusive.

### **Application for State Permanent School Fund Guarantee**

1. Provide name of school district and name, address and phone number of contact person.
2. Submit resolution of board of trustees of the school district evidencing legal authority to issue bonds.
3. Provide principal amount of bonds being requested to be guaranteed by the State, the purpose of the bonds and anticipated date of issuance of bonds.
4. Provide outstanding principal amount of bonds currently subject to State guarantee.
5. Submit a table showing five (5) years historical information concerning:
  - (a) General Fund Statement of Revenues and Expenditures
  - (b) Debt Service Fund
  - (c) Assessed Valuation
6. Submit tables dated as of the first day of the month of submission of the application showing:
  - (a) Outstanding and Proposed Debt
  - (b) Outstanding and Proposed Debt Service Requirements
7. Provide existing tax levy and any proposed tax increases for the school district.

8. Provide the names of any overlapping taxing entities, which will exceed 90% of the \$3.64 limit per \$100 of assessed valuation and any existing agreements with overlapping taxing entities as to how the combined tax rates will be brought into compliance with the statutory limitation.

### **Procedure For State Permanent School Fund Guarantee**

1. Board of trustees of school district requests application from State Treasurer.
2. Application submitted to State Treasurer.
3. State Treasurer provides a copy of the application and supporting documentation to Executive Director, State Department of Taxation (the "Director"), and requests the Director to investigate the ability of the school district to make timely payments on the bonds for which the guarantee is requested.
4. The Director submits a written report of his investigation to the State Board of Finance.
5. The State Treasurer determines that the amount of bonds to be guaranteed together with any other outstanding bonds of the school district subject to the State's guarantee does not exceed \$25,000,000. In addition, the State Treasurer determines that the total amount of outstanding bonds guaranteed by the State Permanent School Fund (the "Fund") does not exceed the least of:
  - (a) 250% of the lower of the cost or fair market value of the assets in the Fund;
  - (b) A percentage of the lower of the cost or fair market value of the assets in the Fund specified by federal tax law; or
  - (c) A percentage of the lower of the cost or fair market value of the assets in the Fund certified by the State Treasurer as the percentage used to determine the maximum amount of bonds that may be guaranteed under State law.
6. State Board of Finance approves the report of the Director and, by resolution, approves the guarantee agreement.
7. Board of trustees of the school district, by resolution, approves the guarantee agreement.

### **Structural Features**

Maximum rate of interest. State law restricts the maximum rate of interest on securities issued by the State to the index (Index of Twenty Bonds or Index of Revenue Bonds, whichever is applicable) plus 3%. The State Treasurer monitors this cap and takes responsibility for compliance. (NRS 349.076)

Discounts. The State may sell its securities at par, above par or below par at a discount of not more than 9% of the principal amount. (NRS 349.077)

Interest payment intervals. Interest is payable, **at least**, semiannually on bonds subject to the Constitutional debt limit and at intervals determined by the Board of Finance on other debt. (NRS 349.276) The State Treasurer implements these requirements with appropriate provisions in the bond documents.

Bond maturity and principal payment. General obligation bonds, which are subject to the Constitutional debt limit, must have a maturity not to exceed 20 years and other bonds must mature within 50 years. (NRS 349.276) The State Treasurer will not permit the maturity of a bond to exceed 120% of the estimated useful life of the project being financed. The State Treasurer's preference is to structure level debt service although principal payments may be deferred in certain circumstances where it will take a period of time before projected revenues are sufficient to pay debt service or the project being financed is growth-related and an ascending debt service schedule is appropriate.

Term/Serial Bonds. The State will structure its bond issues as serial, term or a combination of both in order to realize the lowest interest cost possible and to respond to market demand, or lack thereof, for specific bond maturities.

Capital Appreciation Bonds. Capital Appreciation Bonds (“CABS”) should be considered primarily to achieve level debt service with other outstanding bonds. CABS may also be considered in order to achieve an overall economic benefit as compared to a traditional current interest bond structure.

Variable Rate Debt. The State may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities, consistent with State law and covenants of pre-existing bonds, and depending on market conditions. The State will have no more than 15% of its outstanding general obligation bonds in variable rate form.

Second Lien Debt. The State will issue second lien debt only if it is financially beneficial to the State to eliminate outdated covenants or if consistent with creditworthiness objectives.

Derivatives. The use of derivatives in administering debt can be useful to minimize risk, reduce costs and provide flexibility. The State will consider the use of derivative products on a case-by-case basis and consistent with State statute and financial prudence. If the use of derivatives is considered, the State Treasurer will complete a thorough analysis of all attributes of such use.

Credit Enhancements. Credit enhancement (including letters of credit and bond insurance) may be used only when net debt service on the bonds is reduced by more than the costs of the enhancement.

Bond insurance can be purchased directly by the State prior to the bond sale (direct purchase) or at the underwriter’s option and expense (bidder’s option). When insurance is purchased directly by the State, the present value of the estimated debt service savings from insurance should be at least equal to or greater than the insurance premium. The bond insurance company will usually be chosen based on an estimate of the greatest net present value insurance benefit (present value of debt service savings less insurance premium).

Debt Service Reserve Fund. A debt service reserve fund is created from the proceeds of a bond issue and/or the excess of applicable revenues to provide a ready reserve to meet current debt service payments should moneys not be available from current revenues. For each bond issue, the State Treasurer’s Office in coordination with the State Controller, shall determine whether a debt service reserve fund is necessary.

***The State will strive to maintain an amount equal to the next six months debt service expense.***

All property taxes collected by the State for the purpose of repayment of the State’s general obligation bonds are deposited in the Consolidated Bond Interest and Redemption Fund.

## **Credit Objectives**

Credit ratings issued by bond rating agencies are important in determining the cost of the State’s borrowings. The State has historically enjoyed excellent credit ratings. An important task of the State Treasurer is to communicate regularly with the bond rating agencies to assure continuation of the highest practicable credit ratings for the State. This is accomplished by face-to-face visits with rating personnel during which the State Treasurer and other State personnel make carefully researched and comprehensive presentations about the State, its financial condition and its prospects.

The State seeks to maintain the highest possible credit ratings for all categories of debt that can be achieved without compromising delivery of basic State services. The State Treasurer recognizes that external economic, natural or other events may from time to time affect the creditworthiness of the State’s debt. Nevertheless, the Executive and Legislative branches of government are committed to ensuring that actions within their control are prudent.

Credit ratings issued by the bond rating agencies are a major factor in determining the cost of borrowed funds in the municipal bond market. The concept of debt capacity, or affordability, recognizes that the State has a finite capacity to issue debt at a given credit level. It should be recognized however that there are no predetermined debt level/credit rating formulas available from the rating agencies. Many factors are involved. Determination of a credit rating by a rating agency is based on the rating agency's assessment of the credit worthiness of the State with respect to a specific obligation. To arrive at a judgment regarding the State's credit worthiness, the rating agencies analyze the State in four broad, yet interrelated areas: economic base, debt burden, administrative management, and fiscal management.

## **METHODS OF SALE**

### **COMPETITIVE SALE**

The State Treasurer will sell debt pursuant to a competitive or negotiated sale, depending upon which method will ensure that the best sales results are achieved (taking into account both short-range and long-range implications). The normal method for selling State debt shall be by competitive bid. The conditions that generally favor a competitive method of sale include:

- The market is familiar with the issuer;
- The issuer is a stable and regular borrower in the public market;
- There is an active secondary market with a broad investor base for the issuer's bonds;
- The issue has a non-enhanced credit rating of "A" or above or can obtain a credit enhancement prior to the competitive sale;
- The issuer's full faith and credit or a strong, known or historically performing revenue stream supports the debt structure;
- The issue is neither too large to be easily absorbed by the market nor too small to attract investors without a concerted sales effort;
- Interest rates are stable, market demand is strong, and the market is able to absorb a reasonable amount of buying or selling at reasonable price changes; and
- Policy considerations such as underwriting syndicate and bond allocations can be reasonably addressed through the Notice of Sale.

Any competitive sale of State debt requires formal approval of the Board of Finance by (1) two resolutions (i.e., the Authorizing Sale Resolution and the Bond Resolution) or (2) one resolution authorizing the issuance and sale of the bonds and delegating to the State Treasurer the authority to accept the binding bid for the bonds (*NRS 349.303*). The "Authorizing Bond Sale Resolution" provides for the issuance and sale of the debt, sets forth the conditions of the sale, and directs the State Treasurer to make the necessary preparations for receiving competitive bids.

The "Bond Resolution" sets forth the terms and conditions of the bond and either accepts the winning bid or directs the State Treasurer to take the actions necessary to complete the issuance, delivery and closing of the duly authorized debt.

State debt issued by competitive bid will be sold to a responsible bidder proposing the lowest True Interest Cost to the State, provided the bid conforms to the Official Notice of Sale issued in accordance with the Authorizing Bond Sale Resolution.

## NEGOTIATED SALE

While the presumptive method of sale shall be the competitive method, the negotiated method of sale may be warranted when certain conditions previously described do not allow for a competitively bid selection of an underwriter at the actual time of bond sale. The negotiated method entails the selection of an underwriter prior to the designated sale date. This allows the State to coordinate beforehand the complex tasks and requirements associated with the issuance directly with the underwriter, thereby increasing the probability of an optimal sale. Examples of such sales include:

- Debt issuance is so large (or small) that the number of potential bidders would be too limited to provide the State with truly competitive bids;
- Debt issuance requiring the ability to react quickly to sudden changes in interest rates, such as an advanced or current refunding;
- Debt issuance requiring intensive marketing efforts to establish investor acceptance (e.g., lease / purchase certificates of participation, proprietary or innovative financial products, college or retirement savings bonds);
- Debt issuance with specialized distribution requirements (e.g., bonds sold only to Institutional investors); and
- Debt issuance utilizing variable rate debt securities.

In such cases where a negotiated method of sale is selected, the State Treasurer will strictly implement the following practices:

- Ensure fairness by using a competitive selection process through a "Request for Proposals" process which will establish a standing pool of qualified underwriters for a designated period of time or another form of solicitation that ensures that multiple proposals are fairly considered;
- Remain actively involved in each step of the negotiation and sale processes to uphold the public trust;
- Avoid conflicts of interest, which may occur by prohibiting a financial advisor retained for a particular bond issue to participate as an underwriter of the same bond issue (except under extraordinary conditions not harmful to the State and with the approval of the State Treasurer in writing).
- Request that financial professionals disclose the name(s) of any person or firm, including attorneys, lobbyists and public relations professionals compensated to promote the selection of their professional services;
- Request all financial professionals submitting joint proposals or intending to enter into joint accounts or any fee-splitting arrangements in connection with a bond issue to fully disclose to the issuer any plan or arrangements to share tasks, responsibilities, and fees earned, and disclose the financing professionals with whom the sharing is proposed, the method used to calculate fees to be earned, and any changes thereto; and
- Review the "Agreement Among Underwriters" and ensure that it is filed with the issuer and that it governs all transactions during the underwriting period.

Any negotiated sale of State debt will still require State Board of Finance approval of an Authorizing Bond Sale Resolution, which will provide for the issuance and sale of the debt and permit the State Treasurer to conduct negotiations with an underwriter(s). Documentation supporting the authorizing resolution will be provided to the governing board by the State Treasurer and will include the goals and limitations of the

proposed sale, as well as an explanation of the reasons why a negotiated sale is justified and preferred. If approved, the State Treasurer will execute a purchase contract in accordance with the Bond Resolution.

### **PRICING AND ALLOCATION OF NEGOTIATED SALES**

The negotiation of terms and conditions will include, but not be limited to, prices, interest rates, underwriting fees and commissions. Guidelines will be based on prevailing terms and conditions in the marketplace for comparable issuers, including yields from secondary market trading of previously issued similarly structured State debt. The financial advisor should be involved in all pricing negotiations.

If more than one underwriter is included in a negotiated sale of State debt, the State Treasurer will determine general guidelines of the allocation of fees and underwriting responsibilities among the underwriters, consistent with the objectives of the sale.

### **FEES AND EXPENSES**

The State Treasurer reserves the right to review and approve all fees and expenses and request substantiation. Any excess funds raised beyond those required to meet issuance expenses will be returned to the State Treasurer to be used for the purpose that the bonds were issued or to pay debt service on the bonds.

1. The expense component of the underwriting spread must be finalized by the book-running senior manager and approved by the State Treasurer prior to the day of pricing. The State Treasurer will only permit computer expenses and syndicate member expenses subject to prior approval. The book-running senior manager must provide an estimate of the expense component to the State Treasurer by no later than one week prior to the day of pricing.
2. In general, the State Treasurer will not reimburse the book-running senior manager for clearance fees except for the Depository Trust Company ("DTC") charge on issues that are registered in book-entry form only. All other clearance fees are subject to the review and approval of the State Treasurer prior to the day of pricing on a case-by-case basis.
3. There will be no consideration of an underwriting risk component of the underwriting spread until after the order period closes. At that time, the State Treasurer and the book-running senior manager will review the book of orders and discuss the need for including underwriting risk in the underwriters' spread for any unsold bonds. There will be no negotiation of underwriting risk after the State Treasurer has given the verbal award by to the syndicate. The State Treasurer must approve any underwriters' risk component.
4. The management fee, if any, will be distributed to the managers on the basis of investment banking work performed rather than liability. When the syndicate has been selected, the book-running senior manager shall submit a proposal for the State Treasurer's approval on the investment banking work to be performed by the syndicate. The performance of the syndicate on this work will help determine the management fee distribution.
5. Proposed takedowns for all maturities must be included as part of the proposed pricing terms faxed by the book-running senior manager to the State Treasurer at least four hours prior to the pre-pricing conference call. (See Pricing Procedures.) All takedowns are subject to review and approval by the State Treasurer.
6. The State Treasurer expects the book-running senior manager to act as its agent in the collection of additional costs of issuance for such services as ratings. An estimate of these additional costs of issuance must be provided to the State Treasurer for review and approval one week prior to the day of pricing.

7. The State Treasurer expects the book-running senior manager to keep the underwriters' expense items and costs of issuance to an absolute minimum.

### **USE OF A SELLING GROUP**

The book-running senior manager will discuss with the State Treasurer the advantages and/or disadvantages of using a selling group for the financing. If the use of a selling group is advised and agreed to by the State Treasurer, the State Treasurer will provide the book-running senior manager with a list of selling group members. In addition, if a selling group is used, the book-running senior manager should expect to reserve approximately ten percent of the aggregate issue, subject to State Treasurer's approval, for allocation to selling group members. The book-running senior manager must inform the selling group members four (4) business days prior to the day of pricing of the allocation reserved for the selling group. Selling group members will be eligible for designations up to an agreed-upon percentage.

### **BOND ALLOCATION PLAN**

One week prior to the day of pricing the book-running senior manager must provide to the State Treasurer for review a recommended Bond Allocation Plan that illustrates proposed targets and/or guidelines for the allocation of bonds to the syndicate and selling group. The Bond Allocation Plan must include a proposed allocation of bonds under a best-case scenario (strong demand for the issue) and a worst-case scenario (weak demand for the issue).

1. The book-running senior manager will be responsible for ensuring that the Bond Allocation Plan meets the State Treasurer's goals of: (a) obtaining the best price for the issue; (b) providing firms with allocations that are commensurate with work performed (the type and amount of orders submitted); and, (c) providing opportunity for meaningful participation from all syndicate and selling group members.
2. The State Treasurer expects to participate with the book-running senior manager in the allocation process as it occurs.
3. Before allocating any bonds, the book-running senior manager must provide in writing to the State Treasurer a final listing of orders by maturity, amount and type for each of the syndicate and selling group members.
4. The book-running senior manager's demonstrated ability to meet the State Treasurer's goals of: (a) obtaining the best price for the issue; (b) providing firms with allocations that are commensurate with work performed (the type and amount of orders submitted); and, (c) providing opportunity for meaningful participation from all syndicate and selling group members in the allocation of bonds will be considered in the post-sale evaluation process.

### **RETENTION AND TAKEDOWN DESIGNATION POLICIES**

The book-running senior manager will discuss the use of retention with the State Treasurer one week prior to the day of pricing. During this discussion, the book-running senior manager will provide to the State Treasurer proposed retention amounts by maturity for each syndicate member. It should be noted that retention should be provided equally to syndicate members and not be limited to term bonds.

1. If the use of retention is advised and agreed to by the State Treasurer, the book-running senior manager will make retention available to the syndicate four (4) business days prior to the day of pricing.
2. After the original retention levels have been made available and if circumstances warrant, the book-running senior manager should consider increasing the retention available to syndicate members. In such a case, the book-running senior manager should increase retention with the goal of making as

much available to syndicate members as possible, without having a negative impact on the financing. The book-running senior manager will also be responsible for ensuring that any increase in retention is consistent with the goals of the Bond Allocation Plan.

3. The State Treasurer must approve any change in retention for any syndicate member at any time in advance.
4. Typically, selling group members will not have retention made available to them. There may be, however, a certain percentage of the issue reserved for allocations to selling group members.
5. The book-running senior manager will be responsible for ensuring that the policy for the designation of takedown on net designated orders is consistent with the goals of its Bond Allocation Plan discussed under the "Bond Allocation Plan" above.
6. One week prior to the day of pricing, the book-running senior manager must provide to the State Treasurer a proposed priority of orders for purposes of allocation and a proposed policy for the designation of takedown on net designated orders. The policy must include a maximum percentage of takedown to be designated to any one firm, as well as a minimum number of firms to be designated on any one net designated order. The book-running senior manager will allow the selling group to place net designated orders. Upon the approval of the State Treasurer, the priority of orders and the designation policy must be included in the Agreement Among Underwriters ("AAU") establishing the underwriting syndicate.
7. Any takedown not designated on net designated orders within one week of the day of pricing will be distributed among the syndicate members according to their respective liability assignments.
8. The State Treasurer must approve changes to the takedown designation policy, which may then be communicated by wire to syndicate members with a copy faxed to the State Treasurer.

#### **MARKETING PLAN**

Prior to the scheduled release of retention (four (4) business days prior to the day of pricing), the book-running senior manager must initiate a conference call with the State Treasurer to review current market conditions and the following items previously provided to the State Treasurer by the book-running senior manager: (a) liability assignments; (b) Bond Allocation Plan; (c) retention assignments; (d) priority of orders for purposes of allocation; (e) policy covering the distribution of takedown on net designated orders; (f) amount of bonds (if any) to be made available for allocation to the selling group; (g) estimate of the expense component of the underwriting spread; and, (h) estimate of other costs of issuance. These items are subject to the approval of the State Treasurer.

#### **PRICING PROCEDURES**

1. The book-running senior manager must be prepared to initiate a conference call with the State Treasurer and syndicate to review overall financing goals and plans to accomplish them. The call must be initiated no later than two (2) business days prior to the day of pricing. The plans proposed by the book-running senior manager must address, among other things, the State Treasurer's goals of obtaining the best price for the issue.
2. At least four (4) hours prior to the pre-pricing conference call (one (1) business day prior to the day of pricing) between the State Treasurer and the syndicate, the book-running senior manager must fax to the State Treasurer the proposed pricing terms. This is to allow for thorough evaluation of the proposed pricing terms by the State Treasurer. The list of pricing terms provided to the State Treasurer must include principal amounts, coupons, yields, prices, optional redemption features, concessions and additional takedowns per maturity.
3. One (1) business day prior to the day of pricing, the book-running senior manager must initiate a pre-pricing conference call with the State Treasurer and syndicate to discuss the proposed pricing terms, order period, orders received thus far for retention, underwriting spread components and

other necessary pricing information. (The time of the call should be communicated at least 48 hours in advance of the call, whenever possible.)

4. Prior to its release, the preliminary pricing wire is subject to the approval of the State Treasurer. The wire must include, among other things, all pricing terms agreed upon by the State Treasurer, book-running senior manager and syndicate during the pre-pricing conference call, and the priority of orders for bonds for purposes of allocation. A draft of the preliminary pricing wire must be faxed to the State Treasurer upon the completion of the pre-pricing conference call.
5. On the morning of the day of pricing (prior to the start of the order period), if the book-running senior manager believes that a change in any of the pricing terms approved on the pre-pricing conference call (such as coupons, yields, prices, optional redemption features, concessions and additional takedowns per maturity) is required, the book-running senior manager must initiate a conference call with the State Treasurer and syndicate to review the proposed pricing terms and any suggested changes in light of current market conditions. Moreover, the State Treasurer may require the book-running senior manager to initiate a conference call prior to the start of the order period for large issues and/or during turbulent market conditions.
6. The State Treasurer must approve any change in the initial pricing terms on any maturity during the order period.
7. The book-running senior manager must track the receipt of orders broken down by maturity, amount, type and firm. Status reports on the pricing, including total orders received, broken down by maturity, amount, type and firm, may be requested by the State Treasurer at any time during the order period. The Dalnet "Orders and Allotments by Maturity" report is an acceptable report for these purposes. (Should the State Treasurer request it, the book-running senior manager must also provide submittal times for all orders.)
8. The book-running senior manager must receive approval from the State Treasurer before terminating any order period on any maturity before the previously determined close of the order period.
9. At the close of the order period, the book-running senior manager must provide in writing and in a format acceptable to the State Treasurer, a listing of total orders received broken down by maturity, amount, type and firm, through the end of the order period. At this time the book-running senior manager must also make a concerted effort to provide the State Treasurer with the true interest cost of the issue. After this information has been provided to the State Treasurer, and at a previously agreed upon time, the book-running senior manager must initiate a pricing conference call with the State Treasurer and syndicate to review the book of orders and negotiate any change in pricing terms (e.g., coupons, yields, prices, optional redemption features, concessions and additional takedowns per maturity) or other necessary pricing information, such as underwriting spread components, prior to the verbal award of the bonds to the syndicate by the State Treasurer.
10. Any changes in the pricing terms negotiated between the State Treasurer, book-running senior manager and syndicate prior to receiving the verbal award on the bonds must be confirmed to the syndicate via a final pricing wire, subject to the approval of the State Treasurer.
11. A complete set of final computer runs must be provided to the State Treasurer before the State Treasurer signs the bond purchase agreement. The computer runs must include, but not necessarily be limited to, a table of sources and uses of funds, a summary of assumptions and results (including significant dates, underwriting spread breakdown, ratings, true interest cost) and any additional tables that include coupons, yields, prices, takedowns, principal amounts and related debt service by maturity.

12. The book-running senior manager and underwriters' counsel are responsible for coordinating the execution of the bond purchase agreement and the delivery of the good faith deposit to the State Treasurer.
13. The State Treasurer reserves among other rights, the right to postpone the pricing if the above pricing procedures are not strictly followed.
14. The book-running senior manager must be prepared to provide the State Treasurer on an ongoing basis for at least seven (7) business days following the release of syndicate restrictions secondary market price levels, unsold balance, and level of trading activity of the bonds.
15. The State Treasurer expects the syndicate to provide liquidity in the secondary market for the issue on an ongoing basis.

## **OVERVIEW**

1. All syndicate members will be expected to perform at a level, which provides maximum benefit to the State. The State Treasurer will conduct a post-sale evaluation of each syndicate member's performance not later than 30 days after the close of the transaction. The results of the evaluation will be used in the selection process for book-running senior manager and other syndicate members for future State financings.
2. All syndicate members will be expected to participate in a meaningful way in the transaction. The book-running senior manager will be expected to actively involve syndicate members in the structuring, pricing and distribution of the issue.
3. All syndicate members will be expected to make themselves available to participate, when requested, in various aspects of the financing (e.g., informational meeting and other meetings prior to the issuance of bonds).
4. Information on the sales performance of selling group members may be used by the State Treasurer in future State financings and in the selection of underwriters for negotiated bond sales.

## **POST-SALE EVALUATION**

In keeping with the State Treasurer's policy of acknowledging good performance and building accountability into syndicate participation, the State Treasurer will conduct post-sale evaluations of the syndicate to ensure policies are adhered to and performance is documented. The evaluations will consider, among other things, the fairness of the price and whether optimal distribution structures were developed that ensured the best price; the orders placed and the allocation of the bonds; and, whether syndicate members participated meaningfully in the transaction.

1. The entire syndicate, including the book-running senior manager, must provide to the State Treasurer in a timely manner all necessary information required to carry out the post-sale evaluation.
2. The book-running senior manager must also provide to the State Treasurer a final pricing book. The final pricing book must include, but not necessarily be limited to, the following information: The distribution list; a discussion of market conditions leading up to and during the pricing; the final pricing wire; comparable issues in the market; media coverage; rating agency credit reports; a full set of final computer runs; a table comparing estimated and actual underwriters' expenses with separate transmittal of a check payable to the State Treasurer's Office for any unused expenses; a list of selling group members; a table on orders and allotments; a table identifying management fees and liabilities; a table on bond distribution by firm; a table identifying takedown and designation dollars by firm; a table on member allotments and retention; and a table identifying designations on net designated orders. The final pricing book must be provided to the State Treasurer no later than 14 days after the day of closing.

## **Selection of Outside Finance Professionals**

Pursuant to *NRS 226.110 (10) (b)*, the State Treasurer *may, except as otherwise provided in NRS 538.206, employ necessary legal, financial or other professional services in connection with the authorization, sale or issuance of any State obligation, other than certain housing bonds and revenue bonds.*

The State Treasurer has as a policy, the encouragement of equal employment and/or opportunity for all bidders of services. Consideration to actions in this area during the selection process will be given in regard to the following information:

1. A description of the composition of the work force.
2. Copies of:
  - (a.) Any such written policies of promoting equal opportunity in hiring, retention and promotion for you workforce.
  - (b.) Grievance/complaint procedures
  - (c.) Employee self-identification form
  - (d.) Any such written policies for disseminating policy materials to your firm's employees
  - (e.) Descriptions of training and education programs in connection with such policies
  - (f.) Your firm's initiatives developed and utilized to implement such policies

## **Financial Advisor:**

The State Treasurer will select a financial advisor (or advisors) to assist in the issuance of all State debt. Assistance to be provided by a financial advisor will include, but not be limited to:

- Monitoring market opportunities;
- Evaluating financial proposals submitted to the State Treasurer;
- Analyzing the costs and risks of debt issuances;
- Structuring and pricing debt issuances;
- Assisting with the preparation of official statements of disclosure; and
- Preparing presentations for rating agencies and investors.

The services of a financial advisor(s) will be obtained through a competitive evaluation of proposals submitted in response to a regularly issued Request for Proposals (RFP) by the State Treasurer. The criteria to be used in the evaluation and selection of a financial advisor(s) should include:

- Experience in providing formal financial advisory services to major municipal issuers;
- Experience with diverse financial structuring requirements of major municipal issuers;
- Experience and reputation of assigned personnel; and
- Fees and expenses.

NOTE: *A financial advisor(s) under contract with the State Treasurer for a particular transaction shall not (except under extraordinary conditions not harmful to the State and with the written approval of the State Treasurer) purchase or sell any State debt until underwriting accounts are closed or new debt is freed from underwriter pricing restrictions, whichever occurs first. In such circumstance, financial advisors must comply with all legal and disclosure restrictions, including but not limited to MSRB Rule G-23.*

## **LEGAL COUNSEL**

All debt issued by the State will include a written opinion by legal counsel affirming that the State is authorized to issue the proposed debt, that the State has met all the Constitutional and statutory requirements necessary for the issuance, and a formal determination has been made as to the proposed debt's federal income tax status. This approving opinion and other documents relating to the issuance of State debt will be prepared by a nationally recognized bond counsel ("Red Book" listing) with extensive experience in public finance and tax issues.

The various roles of legal counsel may include the following:

- Bond Counsel
- Disclosure Counsel
- Underwriter's Counsel (negotiated sales only)

Services provided by legal counsel will include, but not be limited to:

- Providing the necessary legal assistance related to the various financings and participating in the negotiation of terms and drafting of various documents, legislation, regulations, and procedures. Legal counsel will render certain opinions regarding the issuance of State securities (taxable and tax exempt) and will verify compliance with all applicable Federal and State laws;

The services of legal counsel will be obtained through a competitive evaluation of proposals submitted in response to a regularly issued Request for Proposals (RFP) by the State Treasurer. The criteria to be used in the evaluation and selection of legal counsel should include:

- Capability and prior experience in applicable municipal bond issuances;
- Expertise in the tax aspects of municipal financings;
- Knowledge of Nevada Revised Statutes pertaining to debt financings;
- Ability and resources to provide required services to the State Treasurer; and
- Fees and expenses.

## **FISCAL (PAYING) AGENT**

The State Treasurer will select a fiscal (paying) agent to provide for the regular payment of debts incurred by the State. The selection of a fiscal (paying) agent will be based on a competitive evaluation of proposals submitted in response to a regularly issued Request for Proposals (RFP) by the State Treasurer. Selection criteria will include, but not be limited to:

- Demonstrated ability to provide accurate and timely securities processing;

- Demonstrated ability to make timely payment to bondholders;
- Demonstrated ability to respond promptly and appropriately to bondholders and issuers; and
- Fees and expenses.

The State Treasurer will monitor the on-going services rendered by the State's fiscal agent to ensure prompt, efficient service to bond issuers, financial institutions, and bondholders.

## **UNDERWRITING POOL**

To provide for the negotiated issuance of State debt, the State Treasurer will appoint a pool of qualified underwriters subject to the approval of the Board of Finance. The appointments will be based on a competitive evaluation of objective criteria submitted in response to a regularly issued Request for Proposal (RFP). Appointments to the pool will be effective for a specified period of time. Among underwriters appointed to the pool, the best-qualified firms shall be designated as possible lead underwriters. Criteria to be used in the appointment of qualified underwriters will include:

- Demonstrated ability to manage a number of firms in a complex financial transaction;
- Demonstrated ability to structure an issue of debt efficiently and effectively;
- Demonstrated ability to sell State debt to institutional and retail investors;
- Demonstrated willingness to put capital at risk by bidding competitively on prior sales of State of Nevada debt;
- Quality and applicability of financing ideas;
- Experience and reputation of assigned personnel; and
- Fees and expenses.

The State Treasurer will monitor the performance of members of the underwriting pool and recommend changes in the membership of the pool if appropriate. Evaluations of firms will be conducted during the post-sale analysis.

## **BOOK-RUNNER SENIOR MANAGER**

The State Treasurer will appoint a lead underwriter (Book-runner senior manager) based on the following criteria:

- Experience and qualifications necessary for the specific issuance of State debt approved by the Board of Finance;
- Quality and applicability of the most recent financing proposals and advice submitted to the State Treasurer; and
- Competitiveness of bids submitted in response to the most recent competitive sales of State debt.

Additional underwriters may be appointed from the pool of qualified underwriters as appropriate, but no underwriter will be assured participation in any specific sale. The appointment of underwriters will be based upon the size of the sale and the need to achieve a broad distribution of State debt among potential investors. If a selling group is appropriate to a negotiated sale of State debt, preference will be given to the selling group members with operations in the State.

- \* *The RFP process for outside professional services should be thoroughly reviewed by all appropriate State Treasury staff **and** at times by certain interested and qualified non-State Treasury parties (i.e., the Director of the Department of Administration.) Score sheets should be provided to and requested from all participants in the RFP evaluation, and be preserved by the State Treasurer's office for the duration of the professional engagement.*

## **Debt Refunding & Call Options**

**Debt Refunding.** A refunding is generally the underwriting of a new bond issue whose proceeds are used to redeem an outstanding issue. Regular monitoring of all outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered (within federal tax law restraints) if and when there is a net economic benefit of the refunding or the refunding is essential in order to modernize covenants essential to operations and management.

The State Treasurer shall pursue a policy to refinance State debt to achieve true savings for the State as market opportunities arise. The "rule of thumb" to be used in determining whether an "advance refunding" should be transacted is if a present value savings (net of expenses) of approximately five percent (5%) can be achieved on the principal amount of debt being refunded. Advance refundings are done by issuing a new bond or using available funds and investing the proceeds in an escrow account in a portfolio of U.S. government securities structured to provide enough cash flow to pay debt service on the refunded bonds through and including the first call date. In a "current refunding" the duration of the escrow is 90 days or less. For "current refunding", the present value savings target may be reduced if it can be demonstrated that waiting will significantly diminish potential savings. The State may review a pro forma schedule estimating the savings assuming that the refunding is done at various points in the future.

The State Treasurer may justifiably consider refundings that differ from these target guidelines on a case-by-case basis, but should fully explain the reasons for deviation to the Board of Finance. Refundings with a negative savings will not be considered unless there is a compelling public policy objective.

**Call Options.** Generally, the State will set such provisions to provide maximum flexibility and avoid conditions that restrict future refunding possibilities.

## **Disclosure Practices**

The State is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, State Divisions, departments, divisions, agencies and other levels of government, and the general public to share clear, comprehensive and accurate financial information. The State is committed to meeting secondary disclosure requirements on a timely and comprehensive basis.

Official statements accompanying debt issues, Comprehensive Annual Financial Reports, and continuous disclosure statements, will meet (at a minimum), the standards articulated by the Municipal Standards Rulemaking Board (MSRB), the Government Accounting Standard Board (GASB), the Securities and Exchange Commission (SEC), and Generally Accepted Accounting Principles (GAAP). The State Treasurer shall be responsible for ongoing disclosure to established nationally recognized municipal securities information repositories and for maintaining compliance with disclosure standards promulgated by national regulatory bodies and applicable to the State's debt.

The preparation of the Official Statement is the responsibility of the Deputy Treasurer of Debt Management in coordination with contracted Disclosure Counsel. Information for the Official Statement is gathered from departments/divisions throughout the State.

## **Compliance and Arbitrage MUNICIPAL SECURITIES RULEMAKING BOARD ("MSRB") RULES**

MSRB rules shall be followed at all times in the underwriting of the bonds.

1. In accordance with MSRB Rule G-11, the priority of orders for bonds for purposes of allocation must be established and disclosed in writing to the syndicate prior to the first offer of any bonds.
2. In placing an order with the book-running senior manager, all syndicate members shall state whether it is a retail order, net designated order, member order or any other appropriate designation. Any change in the designation of order type after order placement must be communicated to the book-running senior manager during the order period.
3. Any bonds sold by the syndicate must be at the then applicable respective public offering prices. Each member of the syndicate agrees to make a bona fide public offering of all bonds allocated to it at the respective public offering prices. Syndicate members may give back to buyers the concessions agreed upon by the syndicate at a syndicate meeting or any part thereof on sales to: (a) dealers who are members of the National Association of Securities Dealers, Inc.; or (b) dealer banks or divisions or departments of banks. This provision applies until the book-running senior manager releases syndicate restrictions.
4. In accordance with MSRB Rule G-12 (k), sales credits designated by a customer must be distributed within 30 days after the delivery of the bonds to the syndicate.
5. In accordance with MSRB Rule G-12 (j), final settlement of a syndicate account and distribution of any profit due to members must be made within 60 days of delivery of the syndicate's bonds.

### **Treasurer and Syndicate**

1. The syndicate must agree to comply with any syndicate rules prohibiting the selling of bonds below the public offering price (less the full takedown) prior to the release of syndicate restrictions. In addition, each syndicate member must agree to inform the State Treasurer of any firm in noncompliance with such syndicate rules.
2. For seven (7) business days following the release of syndicate restrictions, the syndicate and selling group must agree to inform the State Treasurer of any firm lowering the price of the bonds in the secondary market below market levels.

## **AGREEMENT AMONG UNDERWRITERS**

The AAU must include the liability assignments referred to below, and the priority of orders for purposes of allocation and the takedown designation policy described above under "Retention and Takedown Designation Policies". Prior to the day of pricing, the book-running senior manager must provide a letter to the State Treasurer indicating that the AAU complies fully with the Underwriting Policies and Procedures. The State Treasurer reserves the right to review the AAU prior to its distribution to syndicate members. Each syndicate member must review the terms and conditions set forth in the AAU and return a signed copy to the book-running senior manager two (2) business days prior to the day of pricing.

### **LIABILITY**

1. Two (2) weeks prior to the day of pricing (if permitted by the selling schedule), the book-running senior manager must provide to the State Treasurer for review a recommended liability assignment

for each syndicate member. Upon approval by the State Treasurer, the book running senior manger must incorporate the liability assignments into the AAU.

2. As a general rule, liability assignments must be commensurate with the underwriting abilities of the syndicate members to whom they are assigned.
3. In general, the State Treasurer expects that the book-running senior manager will assign itself 30% - 50% of the issue as its liability. However, all liability assignments are subject to the approval of the State Treasurer.
4. It is not the State Treasurer's policy that the allocation of bonds be based on the distribution of liability to the syndicate. (See Bond Allocation Plan for a more detailed discussion of the allocation of bonds.)

### **Arbitrage**

The State Controller's Office shall maintain a system of record keeping and reporting to meet the Arbitrage Rebate Compliance Requirements of the Internal Revenue Code of 1986, as amended (the "Tax Code"). The State is committed to minimize the cost of arbitrage rebate and yield restriction while strictly complying with the Tax Code.

In compliance with the spirit of the Tax Code, the State will not issue obligations except for identifiable projects with very good prospects of timely initiation. Obligations will be issued as closely in time as reflected in the cash flow model provided by the department/division to initiate a bonded project. The minimum goal will be that within six months 5% of the proceeds will be spent, and within three years 85% of the proceeds will be spent. The State will strive to meet the two-year spend-down option by issuing for an estimated one year of expenditures as reflected in the above mentioned cash flow model.

### **Integration of CIP and Debt**

The Department of Administration during the annual budget must identify requests for new bonds during the Capital Improvement Program (CIP) process. In conjunction with coordinating with the Department of Administration, the State Treasurer is committed to extending service and information to all parties involved in the CIP process, including but not exclusive to, the Board of Finance; Public Works Board; Transportation Board; Fiscal Forum; Governor's Fundamental Review and the Legislative Fiscal Analysis Division.

Bonding should be used to finance or refinance only those capital improvements and long-term assets, or other costs directly associated with the financing of a project, which have been determined to be beneficial to the citizens of Nevada, and for which repayment sources have been identified. Bonding should be used only after considering alternative funding sources, such as pay as-you-go funding from current revenues, Federal and State grants, and special assessments.

### **Investment of Bond Proceeds**

In accordance with *NRS 226.110 (4)* and the State Treasurer's investment policy, the State Treasurer may employ any necessary investment and financial advisers to render advice and other services in connection with the investment of bond proceeds.

All general obligation bond proceeds (other than refunding proceeds) shall be invested as part of the State's consolidated cash pool (General Fund Investment Portfolio) unless otherwise specified by the bond legislation. Investments will be consistent with those authorized by existing State law and by the State Treasurer's (currently approved by the Board of Finance) investment policies. Debt proceeds will be invested primarily to assure the safety and liquidity of such investments. The primary liquidity goal is to assure that proceeds will be available to fulfill the purposes of the issue on a timely basis.

## **Conclusion**

The amount of State debt outstanding has increased commensurate with the rapid growth of the State. The debt management challenge in this decade is to meet the financing needs of the State while maintaining a prudent level of taxpayer-supported debt. Pay-as-you-go financing should be pursued when available. When the State needs to borrow, the goal must be to borrow at the lowest cost and on the most favorable terms available. This Debt Issuance Policies and Procedures Manual is intended as a blueprint for success in achieving that goal.

The State Treasurer will review these policies annually. Any changes will only be made with the approval of the Board of Finance.